TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL NOTE

SB 2571 - HB 2742

February 21, 2012

SUMMARY OF BILL: Expands the meaning of "border region retail tourism development district", referred to hereafter as "certified district", to mean one or more parcels of real property that is no more than 12 miles from a United States army installation having a total area of at least 100,000 acres, for the purpose of certain municipalities receiving a special allocation of state sales tax revenue to finance certain economic development projects within a certified district under the Border Region Retail Tourism Development District Act. Authorizes a municipality to include as part of a project within a certified district any property adjoining its existing corporate limits, with such municipality receiving the apportionment of state sales tax revenue generated within the adjoining property, when such municipality adopts the required annexation ordinance and meets other specified conditions. Specifies oversight responsibilities for the Commissioner of Revenue and the Commissioner of Economic and Community Development.

ESTIMATED FISCAL IMPACT:

Increase State Revenue – Net Impact - Exceeds $16,700
Forgone State Revenue – Exceeds $52,500

Increase Local Revenue – Exceeds $78,300

Other Fiscal Impact - Secondary economic impacts may occur as a result of this bill. Such impacts may be realized if an increased business presence in Tennessee is prompted by passage of this bill. Due to multiple unknown factors, fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

Assumptions:

- The fiscal impact of this bill is dependent upon several unknown factors such as the number of additional properties considered certified districts as a result of the expanded definition of "border region retail tourism development district," the number of economic development projects that will occur within any expanded certified district, the number of municipalities that will adopt annexation ordinances for the purpose of expanding certified districts to include property adjoining existing corporate limits, the extent to which any certified district is expanded as a result of a municipality adopting an annexation ordinance, and the extent of incremental state sales tax revenue that will be collected (above base tax revenues) within any expanded certified districts.

- The Commissioners of the Department of Revenue and the Department of Economic and Community Development are required to make a determination that any expanded certified district, and resulting incremental allocation of state sales tax revenue to eligible municipalities, are in the best interests of the state, which means the Commissioners are required to make a specific determination that any economic development project or extraordinary retail or tourism facility occurring within the certified district is a direct result of the special allocation of state sales tax revenue.
- Given that the Commissioners are required to make the determination that any economic development project or extraordinary retail or tourism facility will only occur as a direct result of the special allocation of state sales tax revenue, and further given the extent of unknown factors, the recurring increase in taxable sales in Tennessee is reasonably estimated to exceed $1,000,000 per year.
- Pursuant to Tenn. Code Ann. § 7-40-106(a), 75 percent of incremental state sales tax revenue will be apportioned to municipalities for the purpose of debt service applicable to the development projects; the remaining 25 percent of incremental state sales tax revenue will be retained by the state.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent.
- Recurring incremental state sales tax revenue is estimated to exceed $70,000 ($1,000,000 x 7.0%); recurring incremental local option sales tax revenue is estimated to exceed $25,000 ($1,000,000 x 2.5%).
- The recurring increase in forgone state revenue is estimated to exceed $52,500 ($70,000 x 75.0%); the recurring increase in state sales tax revenue is estimated to exceed $17,500 ($70,000 x 25.0%).
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.5925 percent of all state sales tax revenue as state-shared sales tax revenue.
- The increase in local revenue pursuant to the state-shared allocation is estimated to exceed $804 ($17,500 x 4.5925%).
- The total increase in local revenue is estimated to exceed $78,304 ($25,000 + $52,500 + $804).
- The net recurring increase in state revenue is estimated to exceed $16,696 ($17,500 - $804)
- There could be subsequent increases in state and local government revenue and expenditures due to secondary economic impacts prompted by passage of this bill. Increases in revenue may occur if the number of businesses increase, and the number of jobs increase, as a result of this bill. Increases in expenditures may occur if the demand for governmental programs and infrastructure increase as a result of any increased business presence in Tennessee. Due to multiple unknown factors such as the extent and timing of any increased business presence, the fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

Lucian D. Geise, Executive Director

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